THE WINNETKA PUBLIC SCHOOLS DISTRICT 36

A Community of Learners

Information Memo: Debt Restructuring

TO: School Board
Trisha Kocanda, Superintendent

FROM: Greg Kurr, Chief Financial Officer

January 24, 2017

Overview & Background

In 2015, direction was provided by the Board to pursue a plan to redeem a portion of outstanding debt when it first became callable on June 1, 2017, and refinance the balance, presumably at a lower interest rate. The model for the plan assumed that up to $30 million of outstanding bonds would be redeemed and the balance of no less than $10 million of outstanding bonds would be refinanced, resulting in an estimated long-term savings of approximately $10 million. Under this plan the $30 million required to redeem the bonds would come from the District's fund reserves.

In addition, in order to reduce the level of property taxes and adhere to a targeted level of consistent annual tax rates, the concept of property tax abatements was introduced and implemented. These have also been paid out of existing or available reserves of the District to the benefit of the taxpayers. The assumptions behind achieving the target level of tax increases are dependent on several operational factors including targeted spending and revenue growth limits. The anticipation is also to maintain a 50% to 60% operating reserve over the long-term after effecting a debt restructuring. These factors have been routinely evaluated by Administration and the Finance Committee to determine if the debt restructuring model or a similar model can achieve the desired results and address long-term operating and facility improvement needs of the District.

In anticipation of executing this plan, Administration has set aside approximately $30 million of invested funds that mature in a timeframe to match the call date of the bonds. In response to the recent economic impact of the presidential election and the Federal Reserve increase of interest rates, Administration, with Board approval, refinanced approximately $10 million of bonds in late December 2016 through a bank-qualified tax-free private placement generating a savings in excess of $700,000.

The operational side of the equation has also been evaluated. Remaining proceeds from prior bond sales have recently been earmarked to pay for a substantial portion of facility improvements required to meet the state's Life Safety requirements generated from periodic reviews by architects, in reference to ever-increasing unfunded legislative mandates. The growth in the need and cost of providing special services to students has continued to increase at a disproportionate level to other expenditures and is projected to continue to do so, in spite of projected decreases in enrollment.

More recently, Administration provided an engineering analysis to the Board in November, 2016 of the cost of adding air conditioning to the schools. The idea of pursuing the implementation of this idea was deferred. However, a deeper look at the study accentuated a need to strongly consider addressing the upgrading of the school's heating systems as referenced in the life safety report. The heating systems in the three elementary buildings utilize antiquated steam systems with pipes that are as old as the buildings. The issue to consider is whether these systems are upgraded on an over due preventative maintenance program to more modern and efficient systems (as has been done in many residential and commercial buildings) or to wait to repair them on an emergency basis to still retain an antiquated system. The cost of upgrading the heating systems is significant. A refined estimate is being provided by the District's engineers. Unlike the sole pursuit of installing air conditioning, upgrading the heating systems on a preventative maintenance basis would be a reasonable use of existing reserves versus going to referendum for funding.

Given the fact that reserves are limited, it is unlikely that they will be able to fund the facility improvement and the operational needs of the District, along with the existing debt restructuring and tax abatement with targeted tax rate increase model and still maintain long term reserves at target levels.

The challenge of developing a modified debt restructuring model was discussed and pursued most recently at the January 9, 2017, Finance Committee meeting, with the assistance of William Blair. The goal is to have analysis information and a reasonable potential alternative debt restructuring plan for the Board to evaluate and consider at the February 21, 2017, work session. The objective is to have the plan reasonably address the desire to provide reduced taxation while addressing reasonable needs of District operations, related to facility life-safety and infrastructure needs.